



Report of the Section 151 Officer

Special Cabinet - 20 February 2020

Capital Budget & Programme 2019/20 - 2024/25

Purpose:	This report proposes a revised capital budget for 2019/20 and a capital budget for 2020/21 - 2024/25
Policy framework:	Sustainable Swansea – Fit for the Future
Consultation:	Cabinet Members, Corporate Management Team (CMT), Legal, Finance and Access to Services
Recommendation:	The revised capital budget for 2019/20 and a capital budget for 2020/21 – 2024/25 as detailed in appendices A, B C, D, E, F and G is approved.
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1 Introduction

1.1 This report details:

- Revised capital expenditure and financing proposals for 2019/20
- Capital expenditure and financing proposals for 2020/21 – 2024/25

1.2 Capital spending and funding proposals in relation to the Housing Revenue Account (HRA) are detailed in a separate report to be considered.

1.3 The capital budget proposals are detailed in appendices to this report as follows:

Appendix A Total General Fund Capital Budget Expenditure 2019/20 - 2024/25

Appendix B Total General Fund Financing 2019/20 - 2024/25

Appendix C General Fund Capital Budget Expenditure (excluding C21st School programme and Swansea Central City Deal Schemes) 2019/20 -

2024/25

Appendix D C21st Schools Programme Band A Capital Expenditure 2012/13 – 2021/22

Appendix E C21st Schools Programme Band B Capital Expenditure 2017/18 – 2024/25

Appendix F Swansea Central City Deal Capital Expenditure 2019/20 – 2021/22

Appendix G Material changes to the original 2019/20 budget

- 1.4 Appendix A, C, D, E and F outline a comprehensive programme of capital investment including:
- a significant continuing programme of IT investment across the Council
 - the continued investment in Swansea Schools, including the completion of Band A Schools programme with the exception of the new build for Gorseinon Primary School and implementing over several further years the Band B phase of the 21st Century Schools Programme
 - Swansea Bay City Deal schemes, the construction phase for Phase 1 the Arena and design and planning for Phase 2 Digital Village.
- 1.5 The additional capital investment identified above will attract significant grant funding (21st Century Schools and Swansea Bay City Deal), however the programme will still require material unsupported borrowing to enable completion alongside the use of capital receipts as they are realised. Furthermore some schemes have the potential to provide additional revenue streams of property income, or, subject to agreement, in due course, with Welsh Government, retained elements of non-domestic rates or possibly tax increment financing as further powers devolve to Welsh Government and then on to local government.
- 1.6 Notwithstanding this scale of ambition, each major scheme will, as is always the case, be considered on the overall merits of each business case, both in capital cost, and revenue income streams where appropriate, and unsupported borrowing will be undertaken on a phased basis within the overall envelope for affordability which is considered over the medium to long term to be up to £180m.
- 1.7 Furthermore it has to be recognised that the scale of funding proposed to be injected by this Council, leverages in significant additional sums:
- £98m of Welsh Government funding for Band B schools
 - a City Deal, worth, across the region, around £1.3 billion.
- 1.8 The Swansea City & Waterfront Digital District project is one of eleven projects comprising the wider City Deal. It has been developed by the Council, in partnership with University of Wales Trinity Saint David (UWTSD). The core aim of the project is to create a strong and vibrant digital city that will be the economic engine of the wider city region. There are 3 main components: a Box Village and Innovation Precinct project (led by UWTSD); a Digital Village, which includes 100,000 sq. ft. of flexible and affordable office accommodation for tech businesses (led by the Council); and a Digital Square and Arena which will deliver a 3,500 seat Digital Arena and associated developments (also led by the Council). A 5 case business model has been approved by UK and WG, it sets out the project in great detail, including the benefits, costs, and income derived. The Digital Square component has been approved by Cabinet on 21st November 2019 under a FPR7 report. The

Arena operator is contracted under an agreement for lease. The Council has now entered into the main building contract with the Contractor and works commenced on the 27th November 2019. With regard to Digital Village, the appointed professional team are progressing scheme design with a planning consent to be made Q1 in 2020. The professional team have started the leasing process and a contractor will be procured in 2020, subject to a FPR7 report a start on site will be made in 2021.

2 Capital Budget 2019/20-2024/25

- 2.1 Total General Fund Expenditure in the current year is forecast to be £116.72m (see Appendix A) an increase of £45.024m (see Appendix G) compared with the original estimate of £71.696m excluding waste provision.

This increase is due to the following:

- the addition of grant funded and non-grant funded schemes after Council approved the capital budget in February 2019, together with increases in the cost of schemes following detailed design and planning.
- the addition of Swansea Central City Deal Arena scheme 2019-20 forecast expenditure
- the net balance of schemes carried over from 2018/19 into 2019/20 and schemes carried over from 2019/20 into 2020/21.

- 2.2 The proposed capital programme 2019/20 – 2024/25 and associated financing is set out below in 2.3 for The General Fund Programme, 2.4 for The 21st Century Schools Programme and 2.5 for the Swansea Central City Deal Programme

2.3 The General Fund Programme and Financing 2019/20 -2024/25

2.3.1 The General Fund programme in summary together with detailed schemes is in Appendix C. The attached proposals exclude the Housing Revenue Account capital budget which is detailed in a separate report.

2.3.2 The Capital Budget report considered by Council on 28th February 2019 outlined an unsupported borrowing requirement in the four year forward programme of £104.49m made up of £31.17m for the 21st Century Schools programme and £73.32m for the rest of the General Fund capital programme.

2.3.3 The updated total Capital programme which includes C21st Schools and Swansea Central City Deal Phase1 Arena highlights a 5 year forward programme expenditure of £459.23m (Appendix A) identifying an unsupported borrowing requirement of £178.699m (Appendix B). This reflects a significant increase in the unsupported borrowing requirement of the capital programme. The capital planning envelope for unsupported borrowing requires significant revenue funding to service the finance and this is set out in both the reports on the revenue budget and the medium term financial plan.

2.3.4 Phased, considered affordable borrowing, within the overall planning envelope will develop over the next 5-7 years and, in the case of the funding, from the City Deal, the next 15 years. Some Major schemes added to the General Fund Capital Programme which are partially financed by borrowing are as follows:

- Swansea Central Arena, additional phased development £110.72m for construction phase
- Palace Theatre development £7m total scheme value
- Property investment portfolio £3.9m (borrowing will be financed by future rental income)
- Swansea Vale new car park facility £3.1m (borrowing will be financed by future rental income)

2.3.5 Although there is significant accompanying grant funding and City Deal funding for the first two schemes above, there is substantial unsupported borrowing requirement to underwrite these schemes. The detailed financing for the City Deal schemes is shown in Appendix B.

2.4 Schools Programme and Financing 2019/20 -2024/25

2.4.1 Band A of the Welsh Government's 21st Century Schools and Colleges Programme has drawn to a close, and Band B officially commenced this financial year.

2.4.2 Band A was funded by a 50% contribution from the Welsh Government and a 50% contribution from the council towards a programme Band A total of £51.46m (£51.31m from the programme plus £150k Challenge Cymru funding). Band A is now complete with the exception of the new build for Gorseinon Primary School due for completion in July 2020.

2.4.3 The increase in cost of the Gorseinon Primary School project was funded in part from savings made through unspent optimism bias on other completed Band A projects, but required an overall increase in the Band A programme envelope of £197k from £51.310m to £51.507m. This resulted in a saving against the Band B programme envelope, which was reduced accordingly by £197k.

2.4.4 The Band A total therefore now is £51.657m including the £150k Challenge Cymru funding.

2.4.5 Welsh Government approved the Council's Strategic Outline Programme (SOP) for Band B in December 2017; the funding for Band B of the 21st Century Schools and Colleges Programme is being provided through £600m capital and £500m revenue funding for the whole of Wales. It was announced by Welsh Government on the 21 November 2018, that for Band B the grant rate for capital projects is increased to 65%. (The intervention rate for special schools and PRUs is increased to 75%, and the rate for voluntary aided schools remains the same at 85%). However the programme is not affected by this change.

2.4.6 The approval in principle of the SOP for Band B does not commit the council to the funding contributions until the final approval of any capital allocation from the Welsh Government which is subject to the submission of further detailed business cases in respect of each specific project, and specific approvals in accordance with Financial Procedure Rules.

2.4.7 The Band B programme envelope is now therefore £149.5m (if the potential aided sector scheme is excluded this amounts to £141.3m). Of this total, £126.250m is being sought from traditional capital funding, requiring (after allowance for realisable capital and other receipts) a net local funding

requirement of £28.489m from prudential borrowing. The remaining £23.247m (or £15.032m if the potential aided sector scheme is excluded) is expected to be delivered through the MIM, which would require no local capital funding contribution but incur an annual charge once the accommodation and facilities are completed. An equivalent local share of the capital cost would be £2.856m although the 25% local contribution would apply to the annual revenue charge.

- 2.4.8 The early projects in Band B are making good progress with the first project, a new build for Education Other Than At School (EOTAS) at Cockett; this is currently on site and construction is due for completion in early autumn of 2020.
- 2.4.9 The extension, remodelling and refurbishment of Bishopston Comprehensive School has the 1st stage pre-construction phase contract let, and the contract for the construction of the new build for YGG Tan y lan has also recently been approved.
- 2.4.10 It is anticipated the extension of YG Gwyr and new build for YGG Tirdeunaw will also commence construction early in 2020.
- 2.4.11 There are now only three possible MIM schemes included in the programme since the switch of the special school to capital on the advice of Welsh Government that it was no longer suitable for MIM funding.

The three possible schemes are; additional Welsh medium primary places through new build, English-medium primary schools with category C condition rankings addressing split sites and rationalisation, and St Joseph's Cathedral Primary School.

2.5 Swansea Central City Deal Programme and Financing

- 2.5.1 The Swansea Central City Deal Phase 1 Arena scheme construction phase was approved at Cabinet on 21 November 2019 which has added £110.72m of expenditure to the Capital programme (Appendix F). The detailed financing for this scheme is shown in Appendix B and spend will be funded from a combination of City Deal grant, capital receipts and predominantly unsupported borrowing.
- 2.5.2 The Swansea Central City Deal Phase 2 Digital Village scheme is at the detailed design and planning stage and as noted in paragraph 1.8 planning consent is due in early 2020. The detailed financing for this scheme is shown in Appendix F which is from unsupported borrowing.

2.6 Financing the Capital Programme

- 2.6.1 The financing for the General Fund capital programme identified in 2.3, 2.4 and 2.5 is detailed in Appendix B and requires unsupported borrowing of £178.699m towards forecast expenditure of £459.23m (Appendix A).
- 2.6.2 It should be noted that efforts to increase and maximize grants, contributions and capital receipts in order to minimize borrowing requirements are pursued throughout the year. Included within the programme are a number of schemes which are self-financing. Indeed there is a clear strategy for the Council to maximize external investment in

any proposals and to seek to target its own investment into areas which offer a return commensurate with or greater than financing costs in order to minimise the Revenue impact of any additional borrowing requirements. In the absence of such a strategy then it has to be realised that any capital expenditure that leads to an overall net increase in borrowing costs brings with it the potential to impact on an already challenging revenue budget scenario going forward.

2.6.3 It is recognized that a forecast capital financing requirement of £178.699m is significant. The revenue implications of this are identified in the revenue budget and medium term financial plan on this agenda. The above programme is affordable and sustainable throughout the lifetime of the medium term financial plan subject to the risks highlighted below.

2.6.4 It should be noted that the Council makes an annual budget provision to repay debt through what is known as the Minimum Revenue Provision (MRP). The MRP policy was revised and approved by Council on Dec 20th 2018, mitigating the impact of revenue provision in the earlier years, aligning the repayment of the debt with the lifetime of the asset. During the past year The Council has taken advantage of the low interest rate and volatility in the market to externalise its borrowing requirement in year, by borrowing up to the approved capital finance requirement, though the overall strategy is to mitigate the impact of interest charges by utilising internal resources as far as possible. However, noting the significant capital financing identified by this report, it is forecast that in line with good Treasury Management practice and being mindful of interest rate movements and Cashflow requirements, it is certain that actual external borrowing shall be averaged in the short/medium term, as the capital programme develops with the associated increase in interest payments. The long term value afforded by the low interest rates available via the PWLB during the last few years has now been removed by the shock decision by HM Treasury to impose a 1% premium on all PWLB certainty rate borrowing going forward as of 9th October 2019, adversely impacting the cost of capital for all public sector capital spending. The S151 Officer shall consider all forms of capital funding (PWLB, Bond, private market) when sourcing this funding. The most economically / operationally advantageous form of borrowing shall be secured by the S 151 Officer.

2.6.5 Noting the programmed profile of grant payments in respect of The Swansea Bay City Deal Financing, it has been determined prudent to establish a Capital Equalisation Reserve, with which to mitigate and smooth the timing differences between funding and capital spend during the early years of the programme.

3 Future Schemes

3.1 The Capital programme as outlined in this report reflects known planned expenditure and financing as at the date of the report.

3.2 Future discretionary projects and schemes shall only be incorporated if they are self-financing or the associated financing costs can be supported from the revenue budget affordably and sustainably.

4 Risks

4.1 There are significant risks which may require a future revision of the attached six year capital budget. In particular:

- urgent capital maintenance requirements
- unforeseen costs e.g. failure of retaining walls
- failing to achieve the General Fund capital receipts target
- failing to deliver revenue budget savings as identified in the Revenue Budget Report
- capital financing charges arising from additional unsupported borrowing which cannot be met from existing revenue budgets.
- additional costs arising from any other additions to the Capital programme
- increased borrowing costs

Mitigation in respect of the latter four risks will be achieved by continual review and consideration of individual business cases for the larger schemes.

5 Legal Implications

5.1 The Authority is under a duty to make arrangements for the proper administration of its financial affairs. Failure to do so will be a breach of that duty.

6 Prudential Code

6.1 Under the Local Government Act 2003 and subsequent regulations, a local authority is required to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities when setting its budget and must determine and keep under review how much it can afford to borrow.

6.2 A further report on the agenda will detail what is required under the requirement of the Code and set out in detail Prudential Borrowing Indicators for 2018/19 and subsequent years.

7 Equalities Implications

7.1 The Council is subject to the Public Sector Equality Duty (Wales) and must, in the exercise of their functions, have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
- Advance equality of opportunity between people who share a protected characteristic and those who do not.
- Foster good relations between people who share a protected characteristic and those who do not.

Our Equality Impact Assessment process ensures that we have paid due regard to the above. An equality impact assessment screening has been undertaken and it concludes that there are no equality impact implications arising from this report. All future programs and schemes covered within this report will be subject to their own Equality Impact Assessment process.

Background papers: None

Appendices:

- Appendix A Total General Fund Capital Budget Expenditure 2019/20 - 2024/25
- Appendix B Total General Fund Financing 2019/20 - 2024/25
- Appendix C General Fund Capital Budget Expenditure (excluding C21st School programme and Swansea Central City Deal Schemes) 2019/20 - 2024/25
- Appendix D C21st Schools Programme Band A Capital Expenditure 2012/13 – 2021/22
- Appendix E C21st Schools Programme Band B Capital Expenditure 2017/18 – 2024/25
- Appendix F Swansea Central City Deal Capital Expenditure 2019/20 – 2021/22
- Appendix G Material changes to the original 2019/20 budget
- Appendix H EIA Screening Form